

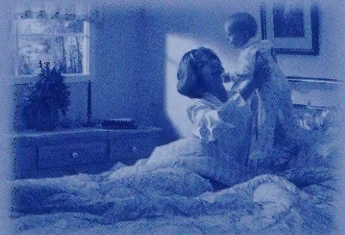
Winapcar Business Reference 125555
 University of Alberta
 118 Business Building
 Edmonton, Alberta T6G 2R6



BEAUTYREST & BEAUTYREST NON-FLIP



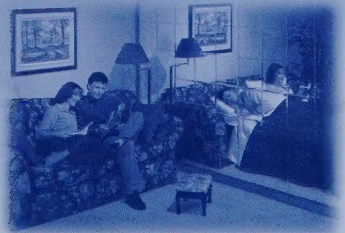
BACKCARE



BEAUTYSLEEP



BEAUTYREST ADJUSTABLE BED



HIDE-A-BED CONVERTIBLE SOFA



SCI Income Trust
 2000 Annual Report

SCI Income Trust Annual General Meeting

Thursday, May 24, 2001

at 10:00 am

The Simmons Showroom

Suite 107, Toronto International Centre

6900 Airport Road, Mississauga, Ontario

SCI Income Trust

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SCI Income Trust

REPORT TO THE UNITHOLDERS

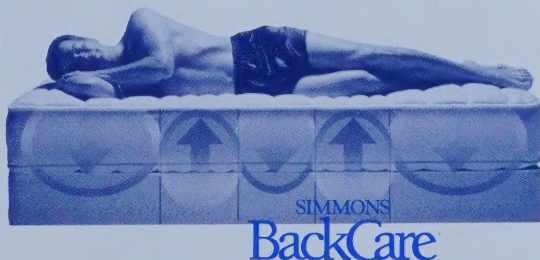
The favourable market conditions, which existed in 1998 and 1999 for our products, continued through 2000. As a result, we are pleased to be able to report a 13% growth in revenues over last year. This growth was derived from a blend of unit growth, product mix and pricing. Additionally, gross profit levels were equal to 1999, despite a very competitive market.

Distributable cash flow for 2000 improved quite significantly over 1999. The 1999 distributable cash flow of \$1.695 per unit included \$0.20 per unit earned in 1998 and \$0.093 per unit from a non-recurring dividend payment received from Mutual Life upon their demutualization. Consequently, comparing the distributable cash flow actually funded by operations of \$1.55 per unit in 2000 versus \$1.402 in 1999 ($\$1.695 - \$0.200 - \$0.093 = \1.402), we had a 10.6% improvement. More importantly, once again we were able to distribute in excess of our anticipated quarterly distributions of \$0.325 per unit for 2000. Furthermore, the Trust has announced a first quarter distribution of \$0.325 per unit for the three months ended March 31, 2001 payable on April 12, 2001 to unitholders of record at the close of business March 31, 2001.

The closure of our Winnipeg plant, announced on January 4, 2000, was completed on schedule November 30, 2000. We are pleased to advise that some of the Winnipeg employees were able to take up employment opportunities in the expanded Calgary plant.

The Calgary factory expansion was also completed on schedule and the required additional employees have been hired and trained. The customers of our old Winnipeg factory are now being serviced very effectively from the Calgary factory and through our distribution centre in Regina.

On December 8, 2000, we locked out the unionized employees of our Kirkland, Quebec plant due to the withdrawal from contract negotiations by the union negotiating committee. We were pleased to report on March 30 that a new agreement had been reached which extends to May 13, 2004.



SCI Income Trust

Our internationally known Simmons brand name products, **BEAUTYREST**, **BackCare**, **BEAUTYSLEEP** and **HIDE-A-BED**, continue as our flagship products and generate substantial revenues as do the private label products we manufacture for retailers such as Sears and Ikea.

In June of 2000, we introduced the first in a series of **BEAUTYREST NON-FLIP** mattresses. This new and innovative **BEAUTYREST** product is designed to reduce motion transfer, that is, how much your motion disturbs your partner. Also, the mattress never needs to be flipped. This product has been extremely well received by our retailers and consumers alike.



By the time unitholders receive this report we will have launched our new television creative for 2001. We all know that eating well, exercising and sleeping well are key contributors to a healthy lifestyle. In a light-hearted 30-second commercial presentation, Simmons **BEAUTYREST** will be presented in unforgettable fashion by a celebrity spokesperson who is already renowned for his work in the areas of nutrition and exercise... and whose last name just happens to be Simmons. None other than Richard Simmons will help build awareness and Simmons' ownership of the "Do Not Disturb – Bowling Ball Mattress" and truly set Simmons apart in the consumer's mind as the "mattress of choice."

The **ObusForme** line of sleep sets we manufacture and distribute under licence continues to be a great success with both revenues and brand awareness increasing at a healthy rate. We continue to look for other viable licence opportunities.

The independently owned and operated Simmons Mattress Galleries and Sleep Centres are growing at a well-planned and controlled pace and now total fifty.

These retail outlets allow our retailers to show a greater selection of Simmons mattresses and foundations covering the most popular price and comfort demands of today's consumers making them much more competitive in today's market.



SCI Income Trust

Our web site, www.simmons canada.com is a wonderful information and awareness centre for retailers, consumers and investors. Information is now available on our company, products, sleep tips, Simmons retailer locations, and investor relations. While our website is a "work in progress", we are told by our customers that it is already the finest in our industry.

On October 1, 2000, Mr. T.H. (Terry) Pace was promoted to the newly created position of Executive Vice-President and Chief Operating Officer. In his new role, Mr. Pace will be responsible for all manufacturing operations with all Divisional General Managers reporting to him. These new responsibilities were assumed in addition to his previous duties as Vice-President, Manufacturing and Engineering and General Manager, Ontario Division.

The year 2001 is the 110th anniversary of Simmons in Canada. Our unitholders should take comfort in the fact that the employees and management on the Simmons team today are the best in our industry, and will be working diligently to deliver superior results to our unitholders.

Finally, we thank our Board of Directors for their guidance and counsel for 2000 and we thank you, our unitholders, for investing in SCI Income Trust. We look forward to a continuing bright future together.



SIMMONS
HIDE-A-BED

P.S. Thody
President & Chief Executive Officer

T.H. Pace
Executive Vice-President & Chief Operating Officer



SCI Income Trust

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion should be read in conjunction with the Consolidated Financial Statements presented herein. These statements report the results for SCI Income Trust (the "Trust") for the years ended December 31, 2000 and 1999. The results for the Trust are dependent entirely on the operations of its wholly-owned subsidiary, Simmons Canada Inc. ("Simmons"). Operating results for the Trust are effectively those of Simmons for the years ended December 31, 2000 and 1999.

Revenue, Gross Profit and Net Income

Revenue of \$122,452,000 for the year ended December 31, 2000 was 13.0% greater than revenue for 1999 of \$108,401,000. Additional unit volume across a broad range of products accounted for 7.0 points of this increase while pricing and product mix accounted for the remaining 6.0 points of increased revenue. Gross profit for 2000 was equal to 1999 at 31% and reflected a highly competitive marketplace in 2000.

Selling, general and administrative expenses for 2000 increased by \$2,977,000 over 1999, due primarily to increased national advertising expenses and dealer co-operative advertising payments in line with the increase in revenue.

Increased interest on bank loans and capital leases and increased amortization of plant and equipment also added to increased expenses for the year and resulted from working capital requirements and significant capital additions during 2000 as detailed below.

Other income of \$715,000 in 1999 represented a non-recurring dividend payment received from Mutual Life on its demutualization. No equivalent payments were received in 2000. The restructuring and closure costs of \$541,000 in 2000 and \$1,075,000 in 1999 are explained in note 12 to the financial statements.

The sum of the above-described changes in revenue, expenses and other items resulted in net income for 2000 of \$9,902,000 (\$1.294 per unit), an increase of \$779,000 compared to 1999.

Distributable Cash Flow

Distributable cash flow for 2000 of \$11,865,000 was \$1,110,000 lower than 1999. Distributable cash flow for 1999 included \$1,531,000 (\$0.200 per unit) distributed to unitholders in the first quarter based on 1998 results and a \$715,000 (\$0.093 per unit) non-recurring dividend payment received from Mutual Life in the third quarter. Distributions to unitholders were \$1.550 per unit in 2000 compared to \$1.695 in 1999. The "other taxable income" amount of distributions to unitholders was \$0.682 per unit for 2000 compared to \$0.681 for 1999. Distributions for 1999 also included \$0.093 per unit of taxable dividend income. All other amounts distributed in both years were non-taxable returns of capital. Management expects that the return of capital from Simmons Canada Inc. to the Trust, will be completed by the end of 2001 and is currently studying alternative methods of distributing cash to unitholders beyond 2001.

Capital Expenditure Related Payments

Capital expenditure related payments for 2000 of \$2,071,000 were \$746,000 greater than 1999 and included \$1,817,000 for the Calgary plant expansion as well as some further expenditures for computer software enhancements to the manufacturing system scheduled to be operational in 2001. A term loan of \$1,500,000 payable evenly over five years was obtained to fund the Calgary expansion.

Liquidity

Working capital at December 31, 2000 of approximately \$12,000,000 was the same as at the end of 1999. Increases in accounts receivable and inventory, which were in line with revenue increases, were funded through the operating line in place with a major Canadian chartered bank.

Year 2000 Issues

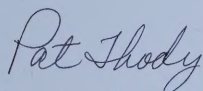
No events occurred due to Year 2000 computer related issues. A combination of new financial software and programming adjustments to manufacturing software enabled Simmons to meet all of its and its customers' and suppliers' needs during 2000.

SCI Income Trust

MANAGEMENT'S REPORT TO THE UNITHOLDERS OF SCI INCOME TRUST

Management of Simmons Canada Inc., as administrator of SCI Income Trust, is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and other information in the annual report. The consolidated financial statements have been prepared using generally accepted accounting principles in Canada including, where applicable, amounts based on management's best estimates. By their nature, these estimates are subject to measurement uncertainty and actual results could differ from these estimates. Financial information elsewhere in this annual report is consistent with that in the financial statements.

Simmons Canada Inc. maintains a system of internal controls designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial information is presented on a timely basis, is relevant and reliable.



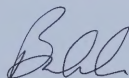
Patrick S. Thody

President and Chief Executive Officer, Simmons Canada Inc.

The board of directors of Simmons Canada Inc. is responsible for ensuring that management fulfils its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The board of directors carries out its responsibility principally through its audit committee.

The audit committee, consisting of non-management directors, is appointed by the board of directors. The audit committee has reviewed the consolidated financial statements with management and the auditors and has recommended their approval by the board of directors.

KPMG LLP, an independent firm of Chartered Accountants appointed by the board of directors, has examined the consolidated financial statements in accordance with generally accepted auditing standards and its report is included herein. KPMG LLP has full and free access to the audit committee.



Brian M. Anderson

Senior Vice-President and Chief Financial Officer, Simmons Canada Inc.

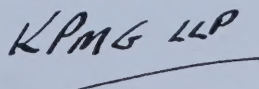
AUDITORS' REPORT TO THE UNITHOLDERS OF SCI INCOME TRUST

We have audited the consolidated balance sheets of SCI Income Trust (the "Trust") as at December 31, 2000 and 1999 and the consolidated statements of income, unitholders' equity, distributable cash flow and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also

includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Canada

February 16, 2001

SCI Income Trust

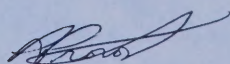
CONSOLIDATED BALANCE SHEETS

December 31, 2000 and 1999 (In thousands of dollars)

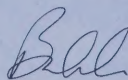
	2000	1999
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 3,092	\$ 3,151
Accounts receivable	20,158	18,211
Inventories (note 3)	6,716	6,068
Prepaid expenses	1,779	1,693
	31,745	29,123
Long-term accounts receivable (note 4)	546	945
Property, plant and equipment (note 5)	17,458	15,989
Employee future benefits (note 6)	306	98
Deferred finance charges	2,275	2,360
Goodwill	40,457	41,557
	<u>\$ 92,787</u>	<u>\$ 90,072</u>
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 7)	\$ 3,041	\$ —
Accounts payable and accrued liabilities	12,461	12,675
Income taxes payable	281	772
Distributions payable to unitholders (note 10)	3,636	3,253
	19,419	16,700
Term loan (note 7)	1,191	—
Capital lease obligations (note 11)	3,360	3,564
Future income taxes (note 8)	3,803	2,831
Unitholders' equity	65,014	66,977
Commitments and contingencies (notes 11 and 13)		
	<u>\$ 92,787</u>	<u>\$ 90,072</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of SCI Income Trust by its attorney,
Simmons Canada Inc.:



Randall G. Provost
Director and Chairman
of the Audit Committee
Simmons Canada Inc.



Brian M. Anderson
Senior Vice-President, Chief Financial Officer
and Director
Simmons Canada Inc.



SCI Income Trust

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2000 and 1999 (In thousands of dollars, except per unit information)

	2000	1999
Revenue	\$ 122,452	\$ 108,401
Cost of products sold	84,005	74,529
	38,447	33,872
Expenses:		
Selling, general and administrative	21,765	18,788
Interest	257	68
Interest on capital leases	411	274
Amortization:		
Plant and equipment	1,984	1,774
Deferred finance charges	85	85
Goodwill	1,100	1,100
	25,602	22,089
Income before the undernoted	12,845	11,783
Other income	—	715
Restructuring and closure costs (note 12)	(541)	(1,075)
Income before income taxes	12,304	11,423
Income taxes (note 8):		
Current	1,430	1,562
Future	972	738
	2,402	2,300
Net income	\$ 9,902	\$ 9,123
Net income per unit:		
Basic	\$ 1.294	\$ 1.192
Fully diluted	1.294	1.190

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Years ended December 31, 2000 and 1999 (In thousands of dollars)

	2000	1999
Balance, beginning of year	\$ 66,977	\$ 70,829
Net income	9,902	9,123
Distributions to unitholders (note 10)	(11,865)	(12,975)
Balance, end of year	\$ 65,014	\$ 66,977

See accompanying notes to consolidated financial statements.

SCI Income Trust

CONSOLIDATED STATEMENTS OF DISTRIBUTABLE CASH FLOW

Years ended December 31, 2000 and 1999 (In thousands of dollars, except per unit information)

	2000	1999
Net income	\$ 9,902	\$ 9,123
Amounts not affecting cash:		
Amortization:		
Plant and equipment	1,984	1,774
Deferred finance charges	85	85
Goodwill	1,100	1,100
Loss on sale of property, plant and equipment	335	5
Difference between employee future benefit expense and amount funded	(208)	(98)
Future income taxes	972	738
Cash flow from operations	14,170	12,727
Capital expenditure related payments	(2,071)	(1,325)
Change in working capital reserve	(234)	1,573
Distributable cash flow	\$ 11,865	\$ 12,975
Distributable cash flow per unit:		
Basic	\$ 1.550	\$ 1.695
Fully diluted	1.550	1.692

See accompanying notes to consolidated financial statements.

SCI Income Trust

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2000 and 1999 (In thousands of dollars)

	2000	1999
Cash provided by (used in):		
Operating activities:		
Net income	\$ 9,902	\$ 9,123
Amounts not affecting cash:		
Amortization:		
Plant and equipment	1,984	1,774
Deferred finance charges	85	85
Goodwill	1,100	1,100
Loss on sale of property, plant and equipment	335	5
Difference between employee future benefit expense and amount funded	(208)	(98)
Future income taxes	972	738
Cash flow from operations	14,170	12,727
Change in non-cash operating working capital	(3,717)	(2,367)
	10,453	10,360
Financing activities:		
Distributions to unitholders	(11,482)	(12,784)
Increase in bank indebtedness	3,041	—
Increase in term loan	1,500	—
Repayment of term loan	(9)	—
Repayment under capital lease obligations	(1,114)	(652)
	(8,064)	(13,436)
Investing activities:		
Purchase of property, plant and equipment	(3,089)	(683)
Proceeds from sale of property, plant and equipment	641	10
	(2,448)	(673)
Decrease in cash and cash equivalents	(59)	(3,749)
Cash and cash equivalents, beginning of year	3,151	6,900
Cash and cash equivalents, end of year	\$ 3,092	\$ 3,151
Supplemental cash flow information:		
Cash paid for:		
Interest	\$ 228	\$ 68
Income taxes	2,190	1,406
Cash dividends and interest received	117	900
Non-cash investing and financing activities:		
Acquisition of property, plant and equipment through capital leases	1,340	2,829

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2000 and 1999 (*Tabular amounts in thousands of dollars, except per unit information*)

SCI Income Trust (the "Trust") is an open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust as of August 22, 1997, as amended and restated as of October 2, 1997 and as further amended on May 21, 1998. An unlimited number of trust units may be issued pursuant to the Declaration of Trust. The Trust qualifies as a mutual fund trust for the purposes of the Income Tax Act.

The Trust was created to invest in securities of Simmons Canada Inc. ("Simmons"). The Trust holds 7,655,000 common shares of Simmons, which represent all of the outstanding common shares and \$50,000,000 principal amount of 12% unsecured subordinated notes of Simmons.

Simmons, which acts as Administrator of the Trust, operates within Canada in the manufacture and sale of mattresses, upholstery and furniture, which is its only line of business.

1. Significant accounting policies:

The consolidated financial statements of the Trust have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

(a) Basis of presentation:

The consolidated financial statements of the Trust include the accounts of Simmons, its wholly owned subsidiary. All inter-entity transactions have been eliminated.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, bank balances (overdraft) and short-term investments with an original maturity of three months or less.

Short-term investments are carried at cost plus accrued interest.

(c) Inventories:

Raw materials and spare parts are carried at the lower of cost and replacement cost. Finished goods and work in process are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

(d) Property, plant and equipment:

Property, plant and equipment are stated at cost. Amortization is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	30 years
Machinery and equipment	1 – 15 years
Machinery and equipment under capital leases	5 – 15 years
Leasehold improvements	Over life of lease

Assets under development are not amortized until the assets are available for use.

(e) Employee future benefits:

Effective January 1, 1999, Simmons adopted prospectively the recommendations for the recognition, measurement and disclosure of the cost of employee future benefits as prescribed in Handbook Section 3461, Employee Future Benefits by The Canadian Institute of Chartered Accountants. The effect of the change is described in note 6 to the consolidated financial statements.

Simmons administers a registered combined non-contributory defined benefit and defined contribution pension plan for substantially all of its full-time employees. Under the registered defined benefit plan segment, benefits are based upon earnings and years of credited service. Simmons also sponsors a retirement compensation arrangement ("RCA") for certain senior officials. The RCA provides benefits in addition to the Simmons pension plan.

No retirement benefits other than pensions are provided to employees. Certain health care and other benefits are provided to employees on leave, the costs of which are not significant and are recognized as expenses as they are incurred.

Simmons accrues its obligations under employee benefit plans as the employees render the services necessary to earn the pension benefits. Simmons has adopted the following policies:

(i) The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages.

(ii) For the purpose of calculating expected return on plan assets, those assets are valued at fair values.

(iii) The initial net transition asset and past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at January 1, 1999 and at the date of the amendment, respectively.

SCI Income Trust

1. Significant accounting policies (continued):

- (iv) The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees, which for the registered defined benefit plan segment is 16 years and for the RCA is 10 years.
- (v) When an event gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.
- (f) **Deferred finance charges:**
Deferred finance charges are costs incurred by Simmons for arranging and issuing, to the Trust, 12% unsecured subordinated notes. Deferred finance charges are amortized over the term of the notes, being 30 years.
- (g) **Goodwill:**
Goodwill is recorded at cost less accumulated amortization. Goodwill, which represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed, is amortized on a straight-line basis over 40 years. The net carrying amount of goodwill would be written down if the value were permanently impaired. The Trust assesses impairment by determining whether the unamortized goodwill balance can be recovered through undiscounted future operating cash flows of the acquired operation over its remaining life.
- (h) **Income taxes:**
Simmons uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.
- (i) **Trust Unit Option Plan:**
Simmons has the ability to grant options to directors, officers and employees of Simmons under the Trust Unit Option Plan (note 9(b)). No compensation expense is recognized when options are issued to these individuals. Any consideration paid to the Trust on exercise of options is credited to unitholders' equity on the consolidated balance sheet.
- (j) **Foreign exchange translation:**
Monetary items denominated in a foreign currency are translated to Canadian dollars at the exchange rate in effect at the balance sheet date and non-monetary items are translated at the rate of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at the rate in effect at the time of the transaction. Foreign exchange gains and losses are included in income.
- (k) **Use of estimates:**
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.
- (l) **Comparative amounts:**
Certain comparative amounts have been reclassified to conform to the current year's financial statement presentation.

2. Cash and cash equivalents:

The major components of cash and cash equivalents are as follows:

	2000	1999
Bank overdraft	\$ (746)	\$ (105)
Short-term investments	3,838	3,256
	\$ 3,092	\$ 3,151

Short-term investments consist of bankers' acceptances, maturing up to January 12, 2001, and earning interest at an average rate of 5.70% (1999 - 4.99%).

3. Inventories:

	2000	1999
Raw materials	\$ 3,665	\$ 3,338
Work in process	682	732
Finished goods	1,503	1,043
Spare parts	866	955
	\$ 6,716	\$ 6,068

SCI Income Trust

4. Long-term accounts receivable:

	2000	1999
Long-term accounts receivable	\$ 2,552	\$ 3,047
Less current portion	2,006	2,102
	\$ 546	\$ 945

Long-term accounts receivable are instalment payments under conditional sales agreements made with hotel property owners. The amounts receivable are due at various dates up to December 2003 and bear interest at the chartered bank's prime rate plus 2% to 3%. The agreements are registered for security purposes in each province under the respective Personal Property Security Acts.

5. Property, plant and equipment:

2000	Cost	Accumulated amortization	Net book value
Land and buildings	\$ 6,231	\$ 575	\$ 5,656
Machinery and equipment	8,415	2,943	5,472
Machinery and equipment under capital leases	7,517	1,569	5,948
Leasehold improvements	477	95	382
	\$ 22,640	\$ 5,182	\$ 17,458

1999	Cost	Accumulated amortization	Net book value
Land and buildings	\$ 5,333	\$ 483	\$ 4,850
Machinery and equipment	7,493	2,043	5,450
Machinery and equipment under capital leases	6,155	871	5,284
Leasehold improvements	469	64	405
	\$ 19,450	\$ 3,461	\$ 15,989

Included in machinery and equipment and machinery and equipment under capital leases is \$2,064,000 (1999 - \$1,231,000) of assets under development. These assets are not yet available for use and are not being amortized.

6. Employee future benefits:

Information about the Simmons registered defined benefit plan segment and RCA is as follows:

As at January 1, 1999	Pension Benefit Plans
Fair value of assets	\$ 14,690
Accrued benefit obligation	11,692
Unamortized net transition asset as at January 1, 1999	2,998
Less accumulated amortization	342
Unamortized net transition asset as at December 31, 2000	\$ 2,656

As at January 1, 1999, the RCA had a deficit of \$436,000.

Pension Benefit Plans	2000	1999
Accrued benefit obligation:		
Balance, beginning of year	\$ 11,017	\$ 11,692
Current service cost	539	621
Interest cost	820	757
Benefits paid	(761)	(709)
Actuarial losses (gains)	832	(1,487)
Plan amendments	435	143
Plan curtailment	(105)	-
Balance, end of year	\$ 12,777	\$ 11,017

SCI Income Trust

6. Employee future benefits (continued):

Pension Benefit Plans	2000	1999
Plan assets:		
Fair value, beginning of year	\$ 15,618	\$ 14,690
Annual return on plan assets	1,408	1,363
Employer contributions, net	228	274
Benefits paid	(761)	(709)
Fair value, end of year	\$ 16,493	\$ 15,618

Pension Benefit Plans	2000	1999
Funded status – surplus	\$ 3,716	\$ 4,601
Unamortized net accumulated experience gain	(1,284)	(1,814)
Unamortized past service costs	530	138
Unamortized transitional asset, net	(2,656)	(2,827)
Accrued benefit asset	\$ 306	\$ 98

As at December 31, 2000, the registered defined benefit plan segment had an accrued benefit obligation of \$62,000 (1999 - \$102,000).

The significant actuarial assumptions adopted in measuring Simmons' accrued benefit obligations are as follows (weighted average assumptions as of December 31):

Pension Benefit Plans	2000	1999
Discount rate	7.0%	7.5%
Expected long-term rate of return on plan assets	7.1%	7.1%
Rate of compensation increase	3.6%	3.6%

Simmons' net benefit plan expense is as follows:

Pension Benefit Plans	2000	1999
Current service cost	\$ 539	\$ 621
Interest cost	820	757
Expected return on plan assets	(1,089)	(1,036)
Amortization of past service costs	43	5
Amortization of transitional asset, net	(171)	(171)
Amortization of experience gains	(17)	–
Curtailment gain	(105)	–
Net benefit plan expense	\$ 20	\$ 176

As a result of the closure of the Prairie division (note 12), Simmons recognized a curtailment gain relating to the registered defined benefit plan segment.

Simmons' registered defined contribution plan segment expense for 2000 is \$124,000 (1999 - \$125,000).

7. Credit facility:

Simmons has a credit facility with a major Canadian chartered bank consisting of a \$12.5 million operating line and a \$1.5 million term loan. The operating line bears interest at the chartered bank's prime rate plus 1/2% and the term loan bears interest at the prime rate plus 3/4%. The credit facility is secured by substantially all of the assets of Simmons.

Simmons has drawn on the operating line during the year and as at December 31, 2000, \$3,041,000 (1999 - nil) is outstanding. During the year, interest of \$203,000 (1999 - \$68,000) was incurred on the operating line.

Simmons fully utilized its \$1.5 million term loan during the year. The term loan is payable in 60 monthly installments of \$25,000. The term loan outstanding at December 31, 2000 is as follows:

Term loan	\$ 1,491
Less current portion included in accounts payable and accrued liabilities	300
	\$ 1,191

Interest on the term loan amounted to \$55,000 during the year.

SCI Income Trust

8. Income taxes:

The Trust is a taxable trust under the Income Tax Act. As such, the Trust is taxable on any income that is not distributed to the unitholders. The Trust intends to allocate all income, less administrative expenses, to the unitholders. No provision for income taxes relating to the Trust has been included in these consolidated financial statements.

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	2000	1999
Canadian statutory tax rate	42.7%	43.1%
Income before income taxes	\$ 12,304	\$ 11,423
Computed income taxes	\$ 5,254	\$ 4,923
Increase (decrease) resulting from:		
Income and dividend portion of amounts distributed to unitholders	(2,497)	(2,826)
Manufacturing and processing profits deduction and rate reduction	(408)	(298)
Amortization of non-deductible goodwill and other non-deductible expenses	202	198
Large Corporations Tax	83	107
Other	(232)	196
Income tax expense	\$ 2,402	\$ 2,300
Consisting of:		
Current	\$ 1,430	\$ 1,562
Future	972	738
	\$ 2,402	\$ 2,300

The components of future income taxes, which are the result of temporary differences between the carrying values and the tax values of assets and liabilities, are as follows:

	2000	1999
Future income tax asset:		
Accounts payable and accrued liabilities	\$ 57	\$ 400
Future income tax liability:		
Accounts receivable	111	—
Property, plant and equipment	1,091	1,103
Employee future benefits	110	36
Deferred finance charges	489	347
Goodwill	2,059	1,745
	3,860	3,231
Future income tax liability, net	\$ 3,803	\$ 2,831

9. Trust units:

- The Trust has an unlimited number of authorized trust units and has issued and outstanding 7,655,000 trust units at December 31, 2000 and 1999. All trust units share equally in all distributions from the Trust and carry equal voting rights. No conversion, retraction or pre-emptive rights are attached to the trust units.
- On May 21, 1998, the unitholders approved the Trust Unit Option Plan (the "Option Plan"). The Option Plan is administered by the Compensation Committee of the Board of Directors of Simmons in its capacity as Administrator of the Trust. Under the Option Plan, options to acquire up to 765,500 trust units may be granted to directors, officers and employees at a price equal to the closing market value of the trust units on the preceding day upon which the options are granted. One third of the options granted may be exercised at any time subsequent to the first, second and third anniversaries of the grant date. Immediate vesting of all options granted is deemed to have occurred immediately prior to the occurrence of a change in control of the Trust, as defined in the Option Plan. The options expire within seven years of the grant date.

SCI Income Trust

9. Trust units (continued):

The following summarizes the trust options outstanding:

	2000		1999	
	Number of options and units	Weighted average exercise price per unit	Number of options and units	Weighted average exercise price per unit
Outstanding, beginning of year	299,000	\$ 9.96	153,000	\$ 9.50
Granted	148,000	10.35	146,000	10.45
Exercised	—	—	—	—
Expired	(12,000)	(9.50)	—	—
Outstanding, end of year	435,000	10.11	299,000	9.96
Options exercisable, end of year	142,667	\$ 9.82	51,000	\$ 9.50

These options will expire between November 16, 2005 and October 26, 2007.

10. Distributions to unitholders:

The Trust makes quarterly distributions to unitholders of record as of the last day of each calendar quarter. Distributable cash of the Trust is equal to interest, dividends and repayments of capital from Simmons, less expenses of the Trust. Simmons distributes its available cash to the Trust based on cash provided by its operations, less capital expenditures, working capital reserves and other amounts considered advisable by the Board of Directors of Simmons.

Distributions to Trust unitholders are calculated and recorded on an accrual basis. Distributions for the year ended December 31, 2000 are as follows:

Declaration date of quarterly distribution	Payment date	Amount per unit	Total
March 3, 2000	April 14, 2000	\$ 0.325	\$ 2,488
June 20, 2000	July 14, 2000	0.325	2,488
September 20, 2000	October 13, 2000	0.425	3,253
December 14, 2000	January 15, 2001	0.475	3,636
		\$ 1.550	\$ 11,865

Distributions for the year ended December 31, 1999 are as follows:

Declaration date of quarterly distribution	Payment date	Amount per unit	Total
March 4, 1999	April 15, 1999	\$ 0.525	\$ 4,019
June 18, 1999	July 15, 1999	0.325	2,488
September 21, 1999	October 15, 1999	0.420	3,215
December 16, 1999	January 14, 2000	0.425	3,253
		\$ 1.695	\$ 12,975

11. Commitments:

Simmons leases various facilities and equipment. Future minimum payments, by fiscal year and in aggregate, under these non-cancellable leases are as follows:

(a) Capital leases:

Year ending December 31:	
2001	\$ 1,753
2002	1,498
2003	1,282
2004	864
2005	158
Total minimum lease payments	5,555
Less amounts representing interest at rates between 6.7% and 9.8%	794
Present value of net minimum lease payments	4,761
Less amounts included in accounts payable and accrued liabilities	1,401
	\$ 3,360

SCI Income Trust

11. Commitments (continued):

(b) Operating leases:

Year ending December 31:	
2001	\$ 2,217
2002	2,037
2003	1,921
2004	1,873
2005	1,925
Thereafter	13,460
Total minimum lease payments	\$ 23,433

12. Restructuring and closure costs:

During December 1999, Simmons decided to close the Prairie division and transfer its operations to the Alberta and Ontario divisions. The Prairie division ceased operations in November 2000.

A provision for restructuring and closure costs of \$1,075,000, which included severances and other costs, was provided as at December 31, 1999. During 2000, a further \$541,000 of expenses for equipment and employee moving and other costs was incurred.

13. Financial instruments:

(a) Interest rate risk:

Simmons has exposure to interest rate risk as its credit facility (note 7) is subject to a floating interest rate based on the prime rate of a major Canadian chartered bank plus 1/2% to 3/4%.

(b) Credit risk:

At December 31, 2000, Simmons' four major customers accounted for 58% (1999 - 48%) of the outstanding accounts receivable balances and 56% (1999 - 52%) of revenue.

Credit risk is controlled by establishing and monitoring customers based on approved credit limits. Anticipated bad debts have been provided for in an allowance for doubtful accounts.

Simmons is also exposed to credit risk in the event of non-performance by its counterparty to the foreign exchange contracts (note 13(c)). Simmons' risk is mitigated by dealing with a counterparty that is a major Canadian chartered bank.

(c) Foreign exchange risk:

Simmons enters into U.S. dollar future exchange contracts to manage its exposure to currency rate fluctuations. Simmons accounts for its U.S. dollar future exchange contracts on an off-balance sheet basis. The outstanding U.S. dollar exchange contracts are as follows:

Notional amount	U.S. \$	8,100
Average contract rate to buy U.S. \$1.00	\$	1.4788
Maturity dates	January 8, 2001 to December 31, 2001	

(d) Fair values:

The carrying values of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and distributions payable to unitholders approximate their fair values due to the short-term maturities of these instruments.

The carrying value of long-term accounts receivable approximates its fair value.

The carrying value of the term loan approximates its fair value since interest is subject to a floating interest rate.

The fair values of capital lease obligations are estimated using discounted cash flow analysis based on Simmons' current incremental borrowing rates for similar types of arrangements. The carrying values of capital lease obligations approximate their fair values.

The fair values of the outstanding U.S. dollar exchange contracts are estimated as the amount of any gains or losses that would result if settlement were to take place at the balance sheet date.

Carrying value	\$	-
Fair value - settlement gain		134

CORPORATE DIRECTORY

Directors of Simmons Canada Inc.

Brian M. Anderson

John B. Newman ⁽¹⁾⁽²⁾⁽³⁾

Randall G. Provost ⁽¹⁾⁽²⁾⁽³⁾

E. Duff Scott ⁽¹⁾⁽²⁾⁽³⁾

Patrick S. Thody ⁽²⁾

(1) Member of Audit Committee

(2) Member of Compensation Committee

(3) Member of Corporate Governance Committee

Senior Officers of Simmons Canada Inc.

Patrick S. Thody

President and Chief Executive Officer

Terence H. Pace

Executive Vice-President

and Chief Operating Officer

Brian M. Anderson

Senior Vice-President

and Chief Financial Officer

Ronald W. Dennis

Vice-President - Marketing

David C. Puttock

Vice-President - Human Resources

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Stock Listing

Toronto Stock Exchange

Trust Unit Symbol

"SMN.UN"

Trustee, Registrar and Transfer Agent

Computershare Trust Company of Canada

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Unitholder Enquiries

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Auditor

KPMG LLP, Toronto, Ontario

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